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# **A Panacea for all Times? The German Stability Culture as Strategic Political Resource**

**David Howarth and Charlotte Rommerskirchen**

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## **Abstract**

The German Stability Culture is frequently pointed to in the literature as the source of the country's low inflationary policies and, at the European Union (EU) level, the design of Economic and Monetary Union (EMU). In Germany, the term was regularly wielded by central bankers and Christian Democrat (CDU-CSU) politicians to legitimise the move to EMU in the face of a large majority of public opinion opposed, and subsequent EU-level policy developments, particularly in the context of the eurozone debt crisis that erupted in 2009. An ordered probit analysis is used to demonstrate the depth of the German Stability Culture, showing that support for low inflation cuts across all party and ideological lines. Despite this ubiquity, the term has been wielded with regularity only by the centre-right Christian Democrats and is strongly associated with this party. A strategic constructivist analysis is employed to explain this uneven but persistent usage in German domestic politics.

‘Europe needs a new Stability Culture.’

- Angela Merkel, German Chancellor (May 2010a).

‘The German Chancellor and the Foreign Minister refer to the  
“German Stability culture” as if German spirit shall heal the world.’

- Klaus Hagemann, SPD parliamentarian (September 2010).

The demand for a new Stability Culture in Europe was the ideational element of the German government’s official remedy to the eurozone sovereign debt crisis which erupted in 2009. Hardly any official statement from Chancellor Angela Merkel’s office emerged without reference to this conceptual commodity. Since the agreement on Economic and Monetary Union (EMU) at the Maastricht Summit in December 1991, the rhetoric around the concept of Stability Culture has been established as a firm component of the discourse on economic governance in both Germany and the European Union (EU). Many of the disputes facing the eurozone today, whether over the (reformed) Stability and Growth Pact (SGP), Germany’s current account and trade surpluses and competitive disinflation, or over the apposite timing of post-crisis monetary and fiscal exit strategies, reflect different views on the German position on fiscal and monetary stability, which reflect in short its Stability Culture. The content of Stability Culture is contested both domestically and abroad. Whilst the term has, in many previous studies on Germany or the eurozone (cf. Dyson 2002), been presented as an underlying factor explaining the design and operation of EMU, it has rarely been subject to close scrutiny.<sup>i</sup>

In order to explain the domestic politics of the German Stability Culture from the post-Maastricht period to the sovereign debt crisis, we engage in an empirical and qualitative analysis. We draw on a recent theoretical addition to the constructivism family: strategic constructivism which refers to the persuasive practices political agents employ to give meaning to particular actions and to frame and construct a logic of appropriateness. Radaelli (1995) was among the first EU scholars to investigate how knowledge and ideas enter the policy process in combination with interests and political strategy. More recently Jabko (2006) developed the concept of 'strategic constructivism' to analyse how the European Commission manipulated the idea of the market in various ways to build political coalitions behind market reforms. Similar approaches have been used by Abdelal (2007) and Chwieroth (2009) both analysing financial liberalisation. Ideas are thought to be used instrumentally. The strategic use of ideas manifests itself in the discourse of political actors, called 'norm entrepreneurs' by some (Finnemore and Sikkink 1998). Hence, strategic constructivism shares much common ground with Schmidt's 'discursive institutionalism' (2008). 'Strategic constructivism' is a hybrid theory that also incorporates the insights from the rationalist literature: 'given strategic setting, strategies are tools the agent uses to get as close to its preferences as possible' (Frieden 1999: 45).

Our aim is to investigate the politics of a powerful idea. Due to its embracing nature, Stability Culture served to justify different actions and political priorities. The principal advantage of strategic constructivism is that it considers material and ideational components as two sides of the same coin. It thus enables us to broaden our analysis beyond the prevailing constructivist-rationalist divide. While constructivist explanations often overestimate the power of ideas, rationalist approaches deny their importance or, at least, their measurability. This article will show why a combination of the two approaches is crucial to

understand the role of Stability Culture in German politics. Using both empirical and qualitative methods this article demonstrates how Stability Culture, although deeply ingrained in the German political culture at large, was hijacked by the main centre-right party, the Christian Democrats (CDU).<sup>ii</sup> The CDU has used Stability Culture as a strategic resource since the mid-1990s to advance and legitimate its agenda and a range of domestic and EU-level policy decisions. When the CDU was in opposition, the concept was wielded to challenge the government. The corollary to this analysis involves explaining why the principal opposition party, the Social Democrats (SPD), did not need strategically to wield Stability Culture, despite the strong support for low inflation among the SPD electorate. We will also briefly consider and challenge the counter-hypothesis which explains differential usage in terms of dominant party ideology.

This article will proceed as follows. First, we present the concept of Stability Culture and locate it in the existing literature. We then present a model to quantify Stability Culture and to characterise its salience from 1980-2008 by means of ordered probit analysis of micro-level data including almost 40,000 individuals. Building on the empirical findings, the third section will look at the partisanship of the Stability Culture and its use in political party discourse. These findings are then put into a temporal analysis. Three broad periods for the strategic use of the term Stability Culture as a political resource are identified: the period between the Maastricht Summit of December 1991 and the advent of the single currency, the breaking and then suspension of SGP rules between 2002 and 2005, and the eurozone's sovereign debt crisis starting in 2009. We finish by explaining how the non-usage of the term during the negotiations and debates on the *Schuldenbremse* (debt brake) adopted in 2009 confirms our hypothesis.

## Unpacking Stability Culture

The term Stability Culture surfaced in the early 1990s as part of a reaction to the widespread opposition of the German population to the replacement of the deutschmark by the euro – the replacement of a strong national currency for a single currency in a monetary union with potentially undisciplined confederates. However, while the term is an invention of the 1990s, its substance is not novel. The collective memory of the hardship and suffering the German population experienced during the hyper-inflations of 1921-23 and the pent-up inflation of 1936-48 was regularly prompted by German policy-makers. For many, the lessons learned can be found condensed in the famous verdict by the novelist Stefan Zweig (1955: 359) that nothing made the Germans ‘that full of hate and Hitler-ripe’ as the inflation of the Weimar Republic. Low inflation was a core element of the ordo-liberal economic policy prescriptions that underpinned the *Wirtschaftswunder*, the economic miracle, of the 1950s and 60s became closely entwined with the consolidation of liberal democracy in West Germany (Kolinsky 1991).

Jacques Delors (1992 cited in Issing 2002: 36) famously remarked that ‘not all Germans believe in God, but they all believe in the Bundesbank’. If the German Bundesbank is the deity to revere then its ‘civic religion’ is that of the Stability Culture. The term Stability Culture was coined by the former Bundesbank President, Helmut Schlesinger who argued that ‘sound money needs not only a stability oriented policy by central bankers and the government [...] it needs a Stability Culture in the public and in politics’ (*Börsen-Zeitung* 1.02.1992). Despite the underlying importance of Germany’s Stability Culture to national and European economic policy, the concept and its implications have been subjected to relatively limited study. Dyson (2000) analyses the term in the context of the discussions on EMU. Underhill (2002) examines the political economy of the Stability Culture with regard

to the relationship between the eurozone as a monetary space and the global monetary and financial system. Bofinger *et al.* (1998) investigate how cultural and institutional factors impact on macroeconomic outcomes and particularly on monetary policy. Previous analyses have focused on the aspect of Stability Culture as a currency culture (Engelmann *et al.* 1997), highlighting the relationship between monetary policy design in EMU and the German Stability Culture (cf. Dyson 2002, Loedel 1999). A related group of literature addressed the causal links between central bankers, inflation and currency cultures (cf. Ehrmann and Tzamourani 2009, Issing 2006, Hayo 1998, Marcussen 1998). This preoccupation with monetary policy has not only led to a one-sided interpretation of the role that the German Stability Culture has played in EU politics but also largely ignored its domestic politics and dynamics.

A broader perspective on Germany's 'culture of stability' has been presented by Mertes (1994: 6) who argues that the basic characteristic of the German political culture is expressed by the pronounced desire for stability, 'or to put it more exactly, the loathing of instability'. This approach is compatible with Schumpeter's call for fiscal sociology (1991) which Webber and Wildavsky (1986) brought to new prominence with their analysis on the societal implications of fiscal policy. Other studies (e.g. Persson and Tabellini 2003) have further highlighted the link between cultural preferences and fiscal policy. As a strong Stability Culture suggests, low deficits for the sake of price stability have fiscal policy implications that in turn raise questions of equality and the scope of state involvement.<sup>iii</sup> In brief, the term Stability Culture goes beyond both monetary and fiscal culture and should be understood as an important component of political culture.

Drawing on this small body of literature (especially Dyson 2000), we understand the term Stability Culture as a common economic policy perspective whose primary concern is price stability which is considered to constitute a vital framework for the market economy -- as in ordo-liberalism -- and the preservation of social peace. Accordingly, we hypothesise Stability Culture to be an integral part of German political culture at large that cuts across the political spectrum.

### **Quantifying Stability Culture**

An empirical investigation into the micro-level dynamics of German Stability Culture is needed to explain its broader significance in domestic politics. Quantifying Stability Culture and identifying its socio-economic and political determinants, we employ an ordered probit regression model to gain leverage on the hypothesis specified in the previous section. The proxy for Stability Culture will be the individual-level priority given to the fight against inflation. Specifically, respondents were asked to rank four different policy goals (maintaining peace and order, increasing public influence of policy decisions, fighting against inflation, and protecting the right of free speech) according to their priorities. We use this ranking of the fight against inflation on a scale from 1 (highest) to 4 (lowest) as our dependent variable. This proxy has its limitations as it relativises the importance of inflation as a policy goal in relation to other very different kinds of policy goals which have a limited (or no) relationship with the pursuit of low inflation.<sup>iv</sup> Yet this data is still revealing because we can detect statistically significant differences in the priority placed on the pursuit of low inflation by different groups of the population in different economic, political and personal circumstances. Furthermore, the data used represents the only comprehensive longitudinal survey available for Germany that addresses public attitudes on inflation. The dependent variables (and all independent, individual-level variables) are taken from the 1980-2008



biennial German General Social Survey (*Allgemeine Bevölkerungsumfrage der Sozialwissenschaften* or ALLBUS), a description of the variables can be found in Table 1.<sup>v</sup>

<INSERT TABLE 1 ABOUT HERE>

Given that inflation aversion should suggest preferences about the management of the economy, one would suspect that it relates to the party affiliation of respondents. This is not the case. A correlation between the right-left self-placement (ranging from 1-10) on the political scale reveals that such relationship is virtually non-existent (Spearman's  $\rho = -0.02$ ;  $p < 0$ ;  $N = 48209$ ). One measurement which might be more specific than the right-left spectrum is the party affiliation of respondents based on their choice of vote in the next election. Table 2 summarises the distribution of inflation aversion among voters for the 2 most popular parties; the Social Democrats (SPD) (33.8 per cent of those polled), and the centre right CDU (32.2 per cent). Already at first glance it seems that there is no marked difference among these voters as far as inflation aversion is concerned.

<INSERT TABLE 2 ABOUT HERE>

To test empirically the effects of party affiliation on inflation aversion along with a large set of control variables seeking to account for economic conditions, the political climate and individual-specific social factors, we use ordered probit analysis. Our main vector of interest is the one including party preferences: the CDU, the SPD, the Greens, the centre right liberals (FDP), and voters for other smaller parties with non-voters (10 per cent of our sample) as the basegroup. Socio-demographic controls include: region, age, marital status, sex, education level, income and employment status. We further control for the economic

climate measuring annual inflation rate, annual change in GDP, employment levels and debt. Moreover two dummies account for the introduction of the single currency in 2001 and the effects of a CDU government (SPD and Grand Coalition governments being the basegroup). To capture year specific factors we add a series of year dummies (not shown) for the 16 surveys under study. Table 3 reports summary statistics.

<INSERT TABLE 3 ABOUT HERE>

The findings in Table 4 are in line with our main hypothesis that party affiliation does not change the priority given to the fight against inflation. With one exception all variables are significant at the 1 percent level. The results in the first column, which includes only the party affiliation, shows that voters for the Green Party and the FDP have lower probabilities of being inflation averse than voters of the SPD and CDU as both coefficients are statistically larger than for the SPD and CDU variables. At first glance it seems that SPD voters place greater emphasis on low inflation. However, a Wald-test for coefficient equality shows, that the coefficients for CDU and SPD voters are not statistically different: CDU and SPD voters are equally inflation averse.<sup>vi</sup> This holds after various controls are added, as can be seen in the second model specification. Model 2 in Table 4 gives us insight into additional determinants of inflation aversion. As expected, the control for age has a negative coefficient testifying to the linkage between inflation aversion and the intensity of the collective memory of Germany's inflation history, which we might assume is greater amongst older Germans. On the socio-demographic side, there is a clear negative trend between inflation aversion and education, with least educated more likely to be averse. In a similar vein, a rise in income is associated with a shift in policy priorities away from the fight against inflation. Both respondents living in East Germany and unemployed are more

inflation averse. The latter group is said to be more sensitive to a decrease in the real value of money with unemployment benefits not being automatically inflation-adjusted. Respondents living in East-Germany are more inflation averse due to the strong memories of the effects of monetary turbulence and loss of savings in the post-reunification period of the early 1990s . The interpretation of the coefficients for the macroeconomic variables is not straight forward. While GDP growth correlates negatively and debt levels positively to the ranking of the fight against inflation, the positive coefficients of unemployment are surprising. Other data show that, counter-intuitively, the empirical correlation between actual inflation and inflation aversion is negligible (Spearman's  $\rho = 0.02$ ;  $p < 0$ ;  $N = 50327$ ) (see Figure 1).

<INSERT FIGURE 1 ABOUT HERE>

As expected, the introduction of the euro has increased the probabilities of being inflation averse.<sup>vii</sup> The presence of the CDU in power corresponds to increased inflation aversion, yet this variable is not significant at any of the conventional levels. As a robustness check we divide our sample into three sub-samples; the first from 1980 to German reunification, the second from 1990 to the introduction of the euro, and the third from 2002 to 2008. All three sub-samples across the three specifications prove coefficient equality for 'Vote\_CDU' and 'Vote\_SPD', significant at the 1 and 5 per cent level. Our analysis confirms the hypothesis that inflation aversion should be considered to be an integral part of German political culture *at large* that is not confined to party borders. Crucially there is no statistical difference in the attitudes towards inflation of CDU and SDP supporters: they are almost equally preoccupied. Incidentally, far left party, FDP and Green supporters are similarly

preoccupied, demonstrating that the support for low inflation cuts across the political spectrum.<sup>viii</sup>

<INSERT TABLE 4 ABOUT HERE>

### **The Partisanship of Stability Culture**

Our empirical investigation into the partisanship of the Stability Culture clearly refutes the idea of a left-right divide. Interviews with German parliamentarians across party lines suggest that they understand Stability Culture transcends party lines. One interviewee echoing this consensus described Stability Culture as the ‘off-the-shelf German ideology’ (author interview, Berlin, 2.6.2010). Only one party, the far left *Partie des Demokratischen Sozialismus* (PDS) opposed the Maastricht Treaty and EMU as a party block in part on the grounds that it entrenched low inflation. During the post-Maastricht period, SPD politicians did not embrace the CDU’s usage of Stability Culture to justify EMU. However, the SPD joined with their rival *Volkspartei* to counter hostile public opinion concerning the stability of the euro. If the (non-)partisan nature of the Stability Culture mattered to party politics we would expect the policies of Germany’s people’s parties to be equally focused on maintaining a discourse of low inflation. Yet, as the two citations provided at the start of this article make us suspect, and as the following section seeks to demonstrate, this is decidedly not the case.

Whilst German politicians shared a near consensus on the common currency and the importance of price stability, there was de-alignment on the use of the concept of Stability Culture. A systematic analysis of the Bundestag plenary session minutes between 1998 and 2010 reveals a strong partisan character in the usage of the term Stability Culture. Bavarian

Christian Democrat (CSU) parliamentarians have used the term particularly often, an observation that is in line with the CSU 2007 party manifesto, the only German party program that calls for a 'strict Stability Culture' (CSU 2007). In sharp contrast to numerous references to Stability Culture by Merkel, the former SPD Chancellor, Gerhard Schröder, never used the term in parliament. It appears only once in his speeches recorded by the government's bulletin, on the occasion of an address at the Bundesbank in which he praised the contribution of the departing president, Hans Tietmeyer (*Bundespresseagentur* 2010). The frequent use of the term by federal president Horst Köhler (CDU), and its non-usage by federal president Johannes Rau (SPD), is a further indication of partisan bias (*ibid.*). The frequent use of the term by Köhler's successor, Christian Wulff (CDU) continues the trend (Wulff 2011a, 2011b). Since inflation aversion transcends the party divide, how can it be that the usage of the term in political discourse is decidedly party-political? The next section will answer this question by tracing the use of Stability Culture from the mid-1990s to 2010.

### **Stability Culture as strategic political resource**

One can distinguish between three broad periods in the use of the term Stability Culture. Although the concept of Stability Culture remains constant over time its application and diagnostic vary considerably, revealing its strategic usage. Chiewroth (2009) argues that the discursive influence of an idea depends upon the ability of actors to present an event as representing a turning point or a danger. All three periods can be located at critical points in the history of the euro. First, the introduction of the euro itself represented a formidable challenge for German policy makers to convince the German population to give up its currency. Second, the years between 2002 and 2005 can be depicted as a period of lax

compliance with the stipulations of the SGP. Third, 2009 saw the beginning of a debt crisis in the eurozone. This section examines how political actors, predominantly CDU politicians, used these openings first to gain popular acceptance for the euro, then to discredit their opponents and finally to justify the rescue package for Greece and other ailing eurozone member states. The Stability Culture discourse used aimed not only at invalidating opposing views but also at framing political action so that it resonated with prevailing beliefs, principles and practices.

### *A union of Stability?*

From 1994, the concept of Stability Culture was *the central leitmotif* used by the Christian Democrat-led government in discussions and debates on the move to EMU by 1999. EMU entrenched the Stability Culture through the constitutionalisation of ‘sound money’ principles with the convergence criteria, generalised central bank independence and the European Central Bank’s mandate. The public’s acceptance of a single currency was consequently to be decided by the credibility of the government’s ‘*Stabilitätsversprechen* (promise of stability)’ (author interview, Berlin, 24.03.2011). The closer the final stage of EMU drew, the more frequent were the Kohl government’s claims of a burgeoning European Stability Culture. The vast majority of Kohl’s public speeches in 1998 feature a version of his assessment that ‘Europe has witnessed the development of an unprecedented Stability Culture over the past years’ (*Bundespresseagentur* 1998) and that ‘Europe grew together to a *Stabilitätsgemeinschaft*’ (community of stability) (*ibid.*). The rise and acceptance of the concept of EMU as a union of stability was the result of a purposeful creation and rearrangement of prevalent social facts by German policy makers. According to the strategic reconstruction of Stability Culture in a European setting, Germany was not surrendering its currency culture but rather exporting it throughout the eurozone. Heipertz

(2005: 75) cites the example of a leaflet published by the government, the European Commission and the European Parliament which was distributed in Germany, promising that ‘the currency union will be a stability union – on that the German tax payer can bank on’. During the negotiations on the winding road to Maastricht, German demands for a stability provision that would restrict fiscal policy were a key element in securing domestic support for the EMU project and to buttress the *Stabilitätsversprechen* in an institutional context (cf. Dyson and Featherstone 1999). The very name of the SGP, and the apparent prioritisation of ‘Stability’ over ‘Growth’, echoes the concept of Stability Culture. When an agreement on the SGP was finally reached after hard-nosed negotiations at the Dublin Council 1996, Theo Waigel, then German finance minister, assured the existence of a broad consensus in favour of and strong support for the SGP. He located the ‘achievement’ in the context of the German sound money paradigm, and diagnosed that ‘a strong Stability Culture in Europe is flourishing’ (Waigel 1996).

Christian Democrat efforts to defend EMU in terms of reinforcing Stability Culture was part of a deliberate strategy to challenge widespread public opposition to the introduction of the single currency on the grounds that it would do precisely the opposite, and deliberate efforts by EMU opponents to use the concept to discredit the project. In a 1992 manifesto, 62 German academic economists argued against monetary union pointing to a lack of stability consensus in Europe stating that ‘stability oriented monetary policy [in EMU] could not be expected due to the lack of a shared Stability Culture of the participating states’ (FAZ: 11.061992 ). In 1998, EMU opponents also brought a case to the Constitution Court against the introduction of the single currency which claimed that ‘one could not expect the ECB to pursue a stability oriented monetary policy because of the lack of a common stability culture from the member states’ (BVerfG 1998).<sup>ix</sup> The Court did not side with the plaintiffs.

Whereas German public support for the euro was at a relative high at the start of the 1990s – 67 per cent (Eurobarometer 1990), it dropped dramatically to a low of 34 per cent in the context of the exchange rate turmoil of 1992-1993 and the parliamentary vote on the Maastricht Treaty in December 1992 which heralded to many the end of the D-Mark era (Banducci *et al.* 2003). A March 1995 poll showed 67 percent of German respondents still opposed to EMU (Allensbacher Archiv, 1995). By the time the CDU left office in September 1998, support for the euro had risen again to 54 per cent. We do not argue that the government's strategic use of Stability Culture alone necessarily explains the rise, although it may have contributed to it. Indeed, by early 2002, German public support reached 67 per cent – the EU average (Eurobarometer 2002) – a significant rise that took place under a SPD-led government. We argue that the apparent success of the strategy is more important than its real success. More importantly, the CDU's strategic usage of Stability Culture to justify EMU is largely detached from perceptions of success: it has been an inevitable strategy given the strength of the culture in Germany.

### *The enemy within*

Much has been written about the irony that of all countries to break the SGP rules, the second one to do so (after Portugal) was Germany (e.g. Verdun and Heipertz 2004). The non-compliance with the SGP's deficit ceiling in 2002 triggered a storm of protest from the CDU opposition, which argued that the SPD-Green coalition had betrayed the credibility of the German Stability Culture. The evocation of 'Stability Culture undermined' enabled the opposition to establish its protest in a well-known framework of discourse. The minutes of plenary sessions at the Bundestag show the presentation of a range of arguments by senior Christian Democrat members incorporating the term Stability Culture. The CSU politician



(and later economics minister) Michael Glos, for instance, stated in 2003, that ‘to give away the Stability Culture of the common currency is to mock the deutschmark’s heritage’.<sup>x</sup> Peter Hintze (CDU) diagnosed an ‘embarrassing action leaving the European public [...] appalled at what Germany is doing to the Stability Culture’.<sup>xi</sup> Hans Michelbach (CSU) joined in by stating that the breach of the SGP constituted a ‘rampage that created serious damage for Germany and the Stability Culture in Europe’.<sup>xii</sup>

This political dissent was reinforced by indignation expressed publicly by monetary policy makers. Bundesbank president, Axel Weber, worried that ‘we are currently witnessing an erosion of the Stability Culture in the eurozone’ (*FAZ* 05.10.04) and in the same vein, the German ECB Chief Economist Ottmar Issing called Finance Minister Hans Eichel’s wish for a more flexible SGP ‘not helpful for the development of a Stability Culture in Europe’ (*Tages-Anzeiger* 17.11.2003). Eichel’s vehement response to accusations that he was harming the Stability Culture (which also reveals that he was not contesting the validity of the concept as representing a distinct German logic of monetary and fiscal appropriateness) involved pointing out that, despite higher deficits, the German inflation rate was among the lowest in the eurozone (*FAZ* 30.11.2010). By the mid-2000s, academic economists had well-established that the link between deficits and inflation is tentative. Yet, political actors frequently embark on collective action in the name of ideas, the very terms and premises of which remain unproven. Furthermore, popular opinions about macroeconomic policies do not need to be rooted in fact to gain salience and political weight. The constructive power of economic ideas, such as those conveyed by the term Stability Culture, is to impose an order over the difficult to grasp and sometime-chaotic dynamics of economic policy combined with the inexorable logic of market rationality.

### *The Greek Crisis as a crisis of the 'European' Stability Culture*

The *Stabilitätsversprechen* made repeatedly prior to the euro introduction was undermined dramatically by the start of the sovereign debt crisis in 2009. Even to the staunchest defenders of eurozone unity it became clear that the Stability Culture in Europe was not blossoming as Waigel (1996) once famously proclaimed. The prospect of a European effort to bail out Greece met with particularly fierce resistance in Germany (*Financial Times* 25.04.2010). Repeated polls showed a large majority of Germans opposed to a Greek bailout. The conservative newspaper *die Welt* (11.05.2010) announced 'the end of our Stability Culture'. The German reactions bespeak of more than a reluctance to pay for another member state's fiscal irresponsibility. They are a reflection of the German instability aversion and deep-felt deception concerning the broken *Stabilitätsversprechen* (author interview, Brussels 24.03.2011). Despite low real inflation in 2009 and 2010, the German public's preoccupation with low inflation reached new heights. Nostalgia for the safe days of the deutschmark captured large parts of the German population already before the sovereign debt crisis, as a reaction to the global financial and economic crisis.<sup>xiii</sup> Amidst the discussion on the Greek bailout, various surveys starting in April 2010 record that more than half of the German population wished to see a return to the old currency (cf. Ipsos 29 June 2010). With the eurozone in crisis, Chancellor Merkel justified Greek aid to the electorate by resorting to the very concept that once helped sell the EMU project to a sceptical population: the Stability Culture.

In the government declaration of 19 May, 2010, Merkel argued in favour of the Greek rescue package by evoking repeatedly the plan to restore the Stability Culture in Europe. What is more she declared herself guardian of this revisited project: 'I will take care that we make sure together with our partners that the whole of Europe commits herself to a new Stability Culture' (Merkel 2010b). She continued by praising the German Stability Culture

as a model to emulate: ‘Our Stability Culture has been tried and tested, and because of that I will not swerve one iota from it’ (*ibid.*). The same message was delivered during the state visits of David Cameron and Nicolas Sarkozy, in May and June respectively. During the joint press conference with the British prime minister, Merkel named her priority: ‘My focus will be for us to make clear that the Stability Culture has to improve’ (Merkel 2010c). During the conference with the French president she attested harmony, stating that ‘we [Sarkozy and Merkel] are already of one mind concerning the need for lessons [...] and how we could strengthen the Stability Culture within the existing treaties’ (Merkel 2010d).

Not only the broader reforms of economic governance in EMU but also specifically the creation in 2010 of the European Financial Stability Facility (EFSF) and the agreement to create a permanent European Stability Mechanism (ESM) from 2013 were further cast as in accordance with the German export mission of a Stability Culture for Europe. Addressing the newly created rescue fund, Finance Minister Wolfgang Schäuble (2010) argued that the unanimity principle under which the facility operated would guarantee that the ‘German Stability Culture would leave its mark on the adjustment programmes’ for countries in need of financial help.

As in the 1990s, CDU government attempted to maintain ownership of the term Stability Culture to legitimise controversial EU-level policies, when others used it to challenge these same policies. Axel Weber, then president of the Bundesbank, warned that the ECB’s bond buying scheme to prevent default and contagion in the eurozone entailed ‘considerable stability-political risks’ (*Handelsblatt* 12.5.2010). Jürgen Stark, chief economist of the ECB, called any political pressure in monetary policy as a ‘betrayal of the stability culture’ (*FAZ* 16.5.2010). Weber stepped down as Bundesbank president on 30 April 2011 after having

repeatedly accused the ECB of creating inflation risk by blurring monetary and fiscal policy and violating its mandate of price stability. Finance Minister Schäuble endorsed the credentials of Weber's successor, Jens Weidmann, as the embodiment of the 'Bundesbank's Stability Culture' (*Passauer Neue Presse* 18.02.2011).<sup>xiv</sup> For his part, Weidmann, Chancellor Merkel's former economic advisor, maintained the discourse of his former political masters. He insisted that the 'Bundesbank stands for Stability Culture' and promised to 'ensure that this [would] remain the same in the future' (Weidmann 2011).

### **Achieving Stability without reference to Stability Culture: the 'Debt Break'**

During the 2005 election campaign, reinvigorating the SGP on a European level and fiscal prudence on a domestic level were essential elements of CDU election strategy. Angela Merkel demanded 'a new Stability Culture' during election rallies (see, for example, *der Spiegel* 14.09.2005) and the election manifesto of the CDU declared to 'put an end to the calamitous march towards the debt state', the need for 'strict fiscal discipline' and 'no shaking of the SGP' (CDU 2005). The new fiscal course for the Grand Coalition, that came into power in autumn 2005, can be found in the joint contract between the CDU, CSU and SPD: 'Consolidating the budget and meeting the Maastricht deficit criteria by 2007 is indispensable' (Koalitionsvertrag 2005). And indeed by 2007 the German government achieved a balanced budget for the first time since 1969. The creation of the 'debt brake' (*Schuldenbremse*) in the federalism reform (*Föderalismusreform II*), passed by parliament in the summer of 2009, was one of most significant fiscal policy reforms achieved in Germany since 1949. The cyclically-adjusted debt brake envisages a 0.35 per cent of GDP limit for federal government borrowing in normal times from 2016 onwards with a transition period starting in 2011, while the Länder budgets are to be structurally balanced as of 2020.

Surprisingly, though, the debt brake was achieved without invocation of the term Stability Culture in either plenary sessions or public speeches. How can this be explained?

As the political set-up of the Grand Coalition required sensitive tactics that would not be reminiscent of the old conflicts between the CDU and SPD (notably over the SGP), the CDU was unable to use the term Stability Culture as a strategic resource without tainting the negotiations on the debt brake (Egle and Zohlnhoefer 2010).<sup>xv</sup> Crucially, Peer Steinbrück, the Finance Minister responsible for pushing through the debt brake, was a senior SPD politician, who dedicated considerable effort to convince his party colleagues of the economic and political merits of the reform. Indeed, he names his participation in the establishment of the debt brake as his most important achievement of his four years in the Finance Ministry (Steinbrück 2010: 309).<sup>xvi</sup>

### **The SPD and Stability Culture**

Usage of the term Stability Culture as a strategic resource was alien to the SPD, even to one of its most stability-oriented ministers. For the SPD, Stability Culture, while of obvious importance, was to be considered in relation to other socio-economic goals. Even though, as we have shown above, SPD voters prioritised low inflation as much as CDU voters, SPD economic thinking since the 1960s was dominated by Neo-Keynesianism dating back to Karl Schiller's notion of 'global steering' (Dyson and Featherstone 1999: 289). An emphasis upon growth and employment -- as a necessary counterbalance to low inflation -- can be found consistently in SPD discourse justifying support for EMU. Gerhard Schröder argued in favour of the creation of the euro on the basis of fighting unemployment (Schröder 1998) and later in his second term in office asserted that 'an appropriate fiscal policy, which helps stability and growth at equal terms, can not be measured by compliance with the three [per cent] deficit ceiling alone' (*Financial Times Deutschland* 17.02.2005).

The left-wing of the SPD was adamant in its opposition to the sound money paradigm -- another constraint on the party leadership -- but less antagonistic to EMU per se. In the 1990s Oskar Lafontaine (now a member of the leftist *die Linke*) emerged as the figurehead of this growing resistance. In late 1998, during a summit in Pörtschach, the then Finance Minister demanded lower interest rates and monetary policy to favour growth instead of stability (*die Zeit* 45/1998). After leaving office in early 1999, Lafontaine repeated his criticism: 'If the value of the currency is regarded as a more important issue than employment, the banks will become more important than democratically elected governments. If a "stability culture" of this kind becomes established, the unemployed in Europe will have a long and hard road ahead of them' (Lafontaine 2000: 142).

Further, the corollary to our argument about the CDU's usage of Stability Culture is that the SPD did not need strategically to construct a pro-EMU discourse centred upon stability. Although the party officially supported the project to create a single currency, the SPD did not have to dedicate the same kind of political resources to defend it that the CDU was forced to mobilise. By the time the SPD came to power in 1998, the launch of the single currency was an accepted fact. Lafontaine criticised the sound money bias of the EMU project, not the project itself, and, in any case, resigned after only five months as finance minister. Then, given the failure of the Schröder Government to respect the SGP rules from 2002, it made no strategic sense for the SPD to draw attention to a Stability Culture during the negotiations on the debt brake, as it was this very culture that the party had appeared to be undermining.

## **Conclusion**

Our investigation set out to explain the nature and dynamics of the German Stability Culture as a strategic resource. Identifying the determinants of Stability Culture as expressed by inflation aversion, empirically we show that its salience transcends party lines. We then contrast this finding that Stability Culture is not a matter of party affiliation with the domination of Stability Culture discourse by CDU politicians. Tracing the history of this discourse from the mid-1990s to 2010 we find three distinct periods. In the early 1990s, the term Stability Culture was an instrument to justify the EMU project by locating the single currency in a community of stability. Between 2002 and 2005 it was used by opposition politicians from the CDU and FDP to discredit the centre-left government by accusing it of disgracing the stability heritage of the deutschmark. The argument boiled down to the claim that Stability Culture in Europe could not thrive without Stability Culture in Germany. In 2010, the term surfaced again in the context of the eurozone's sovereign debt crisis, with Stability Culture presented as a remedy to the crisis. Coming full circle back to the 1990s, rhetoric about the achieved Stability Culture in Europe, the road-map for the eurozone in the aftermath of the debt crisis would, at least for leading German politicians, lead to a *New* Stability Culture. The suspension of the SGP rules in 2003 opened a window of opportunity for CDU politicians to make use of the dormant term Stability Culture that had been previously wielded by the Kohl government. By 2006, the term was too party-political and the Grand Coalition partners avoided it in their justifications of the debt brake.

If ideology was central to an explanation of differential usage by the Christian Democrats, we might expect the term to have been wielded by the CDU-CSU prior to the 1990s or on a range of non-EMU policy issues -- notably domestic macro-economic and fiscal policy. It was not. The Christian Democrats made use of the term as a strategic response to EMU sceptics and opponents who wielded the term. Clearly, low inflation has been prioritised

more by the Christian Democrats than the SPD, given the ordo-liberal ideological roots of the CDU-CSU and the Keynesian roots of the SPD. Our article does not deny an ideological dimension to party support for low inflation -- as opposed to voter preference. However, our article examines how a concept is wielded to justify a range of policies that may or *may not* be directly linked to the actual goal of low inflation. Our article focuses upon the wielding of the concept itself -- as a strategic device designed to appeal to deep-seated public preferences -- not the specific policy goals behind the wielding, which may or may not have anything to do directly with obtaining low inflation as a reflection of deeper ideological-inspired goals.

Jabko (2006) applies strategic constructivism to examine the European Commission's manipulation of the concept of the 'market', applied differently in different contexts -- financial integration, energy, EMU, structural funds -- and 'Janus-faced'. The great scope for the Commission's manipulation of the concept of 'market' owed to the greater diversity of its possible meanings. In Germany, Stability Culture benefited from a more uniform and universally held understanding related to the twinned goals of low inflation and fiscal consolidation. Despite this important difference, our study has shown that the term Stability Culture has been strategically manipulated by the CDU in different contexts to give meaning to and legitimize different policies that were perceived by much of public opinion as being contrary to the pursuit of low inflation, including EMU and support packages to aid euro area countries. As it is deeply rooted in the political and economic culture of the majority of the German population and applicable to different scenarios, the term Stability Culture will continue to be wielded. Our analysis demonstrates that Stability Culture is not a panacea for all times. However, it is a concept that will be wielded strategically by the CDU in both government and opposition when political conditions allow. For the CDU, the term is central



to identifying and legitimising solutions to the eurozone's sovereign debt crisis (Merkel 2010e).

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TABLE 1  
LIST OF VARIABLES AND THEIR OPERATIONALISATION

Inflation_Aversion	Respondent's ranking of 'the fight against inflation' as policy priority taking the value 1(highest) to 4 (lowest)
CDU	1 if intention to vote for CDU, 0 otherwise
SPD	1 if intention to vote for SPD, 0 otherwise
FDP	1 if intention to vote for FDP, 0 otherwise
Greens	1 if intention to vote for Green party, 0 otherwise
Other	1 if intention to vote for other party, 0 otherwise
East	1 if respondent was born in former GDR/if interview took place in former GDR, 0 otherwise
Male	1 if respondent is male, 0 otherwise
Age	Age 18–97
Unemployed	1 if respondent is currently unemployed, 0 otherwise
Income_1	1 if the respondent's monthly income is between €0 and €499, 0 otherwise
Income_2	1 if the respondent's monthly income is between €500 and €1,499, 0 otherwise
Income_3	1 if the respondent's monthly income is between €1,500 and €4,999, 0 otherwise
Education_1	1 if no graduation/diploma, 0 otherwise
Education_2	1 if graduated with Hauptschule diploma, 0 otherwise
Education_3	1 if graduated with Realschule diploma, 0 otherwise
Education_4	1 if graduated with Abitur, 0 otherwise
Inflation	Inflation rate, $((\text{cpi}-\text{L.cpi})/\text{L.cpi}) * 100$
GDP	real GDP annual growth (%)
Debt	$\Delta$ in general government gross public debt as share of GDP (%)
Unemployment	$\Delta$ in unemployment rate (%)
CDU_gov	1 if CDU/CSU government (without SPD), 0 otherwise
Euro	1 if year >2002

Source: ALLBUS-Kumulation 1980–2008 (Studien-Nr. 4570, Köln: GESIS); OECD (2011).

TABLE 2  
INFLATION AVERSION OF CDU AND SPD VOTERS, 1980–2008

Inflation aversion	CDU voters		SPD voters	
	Freq.	%	Freq.	%
1	1,546	12.44	1,756	13.42
2	3,297	26.54	2,966	22.67
3	3,132	25.21	3,606	27.57
4	4,449	35.81	4,753	36.43

Source: ALLBUS-Kumulation 1980–2008 (Studien-Nr. 4570, Köln: GESIS).

TABLE 3  
SUMMARY STATISTICS

Variable	Observations	Mean	SD	Minimum	Maximum
Inflation_Aversion	50,327	2.86	1.05	1	4
CDU	39,062	0.32	0.47	0	1
SPD	39,062	0.34	0.47	0	1
FDP	39,062	0.08	0.27	0	1
Greens	39,062	0.09	0.29	0	1
Other	39,062	0.05	0.22	0	1
East	51,416	0.22	0.41	0	1
Male	51,416	0.47	0.50	0	1
Age	51,335	46.84	17.34	0	1
Unemployed	51,300	0.05	0.26	0	1
Income_1	51,300	0.26	0.44	0	1
Income_2	51,300	0.44	0.50	0	1
Income_3	51,300	0.15	0.35	0	1
Education_1	51,277	0.02	0.14	0	1
Education_2	51,277	0.47	0.50	0	1
Education_3	51,277	0.28	0.45	0	1
Education_4	51,277	0.16	0.37	0	1
Inflation	51,416	2.48	1.57	-0.1	5.4
GDP	51,416	2.33	1.50	-0.4	5.3
Debt	51,416	0.99	1.15	-1.2	2.8
Unemployment	51,416	0.07	0.77	-1.1	1.7
CDU_gov	51,416	0.60	0.50	0	1
Euro	51,416	0.25	0.43	0	1

*Note:* For a description of all variables see Table 1.

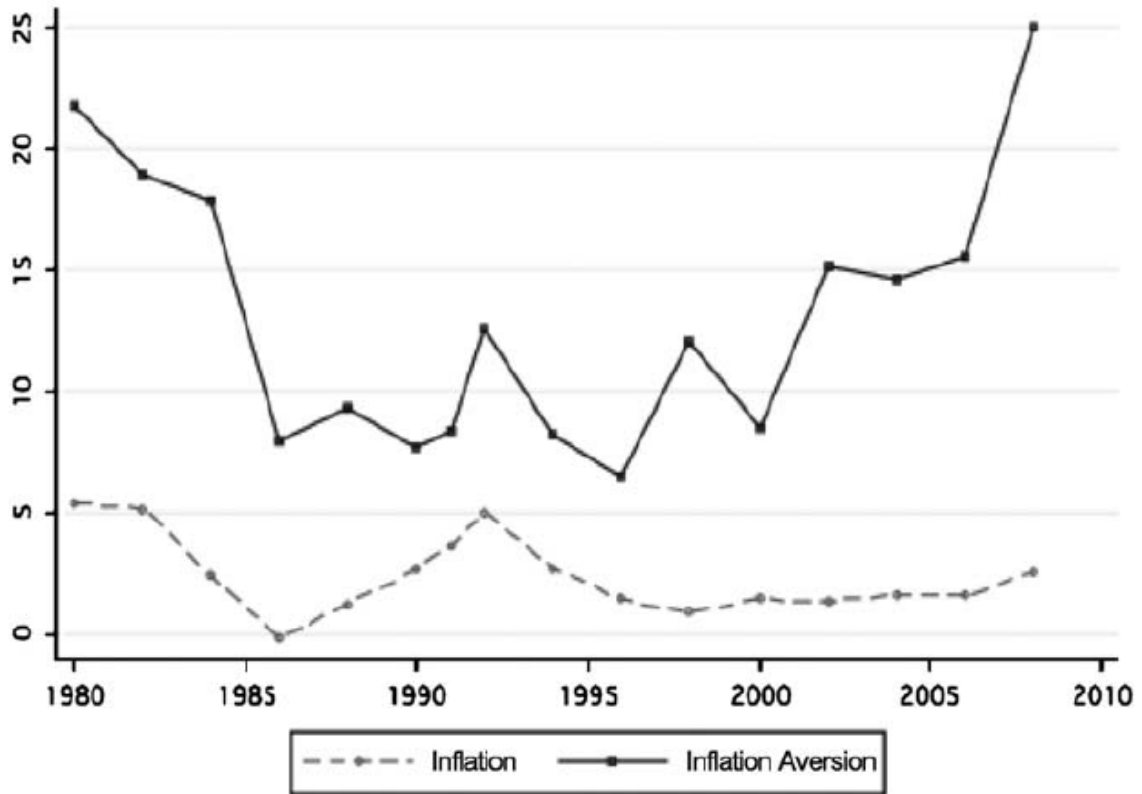


TABLE 4  
DETERMINANTS OF INFLATION AVERSION IN GERMANY, 1980–2008

	Model 1	Model 2
<i>Party affiliation variables</i>		
CDU	0.272 (0.019) ***	0.219 (0.020) ***
SPD	0.260 (0.019) ***	0.212 (0.020) ***
FDP	0.466 (0.026) ***	0.321 (0.026) ***
Greens	0.555 (0.025) ***	0.312 (0.026) ***
Other	0.258 (0.030) ***	0.204 (0.030) ***
<i>Controls</i>		
East		-0.128 (0.016) ***
Male		0.108 (0.012) ***
Age		-0.004 (0.001) ***
Unemployed		-0.144 (0.026) ***
Income_1		-0.055 (0.020) ***
Income_2		-0.047 (0.018) ***
Income_3		0.124 (0.022) ***
Education_1		-0.660 (0.047) ***
Education_2		-0.443 (0.025) ***
Education_3		-0.132 (0.025) ***
Education_4		0.090 (0.027) ***
Inflation		-0.170 (0.006) ***
GDP		0.070 (0.009) ***
Debt		-0.034 (0.008) ***
Unemployment		0.188 (0.008) ***
CDU_gov		-0.018 (0.030)
Euro		-0.236 (0.026) ***
<i>N</i>	38,556	38,444
Log likelihood	-49845.089	-48510.39
Pseudo R <sup>2</sup>	0.024	0.047

Notes: Ordinal probit coefficients with standard errors in parenthesis. Country dummies not shown.  
\*\*\*  $p < 0.01$ .

FIGURE 1.  
INFLATION AND INFLATION AVERSION IN GERMANY, 1980–2008



Source: ALLBUS-Kumulation 1980–2008 (Studien-Nr. 4570, Köln: GESIS).

## Notes

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<sup>i</sup> This research is based on qualitative analysis of primary and secondary documents, especially a systematic review of plenary minutes of the German Bundestag (Lower House) from 1998-2011 and research interviews with Bundestag parliamentarians who served at some point in the period from 1980-2011, and EU economic and financial affairs officials in both the European Commission and the Council. The original quoted material from the German is translated by the authors into English.

<sup>ii</sup> There are two Christian democratic parties: The Christlich Soziale Union (CSU), which is restricted to the Land of Bavaria, and the larger Christlich Demokratische Union (CDU), which runs candidates in all other Länder. Since the two parties do not compete and have always formed a common delegation in the federal parliament, they are treated as one single party to which we refer as the CDU for brevity's sake. However, we note that the CSU and CDU do have distinctive positions on the EU and EMU (the CSU has been consistently more sceptical on both).

<sup>iii</sup> Although at its core a paradigm pertaining to monetary policy, Stability Culture has a distinct fiscal component. At the heart of the construction of the pan-European Stability Culture was the claim that high deficits would cause inflation (cf. EMI 1996, González-Páramo 2005). It is by now established that the link between deficits and inflation is tentative at best and does not seem to apply to low-inflation advanced economies (Cato and Terrones 2005). Nonetheless, the 'fiscal view' of inflation has been important for the strategic construction and acceptance of the economic content of Stability Culture encompassing both monetary and fiscal policy.

<sup>iv</sup> We are furthermore aware of the shortcomings of proxying Stability Culture on the basis of its monetary – albeit central – component only. Lack of data for measuring 'deficit

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aversion' prevented us from sizing its fiscal dimension. However, working solely on inflation aversion should not present a problem as the two components are likely to be highly correlated.

<sup>v</sup> Two other related surveys by the International Social Survey Programme (ISSP) and the Eurobarometer cover a much shorter time-span and their limited scope does not supply suitable control variables.

<sup>vi</sup> Recoding the dependent variable to a binary variable (1 = 'fight against inflation as first policy priority' and 0 otherwise) and employing a simple probit model does not substantially alter the conclusions to be drawn.

<sup>vii</sup> It is worth noting that evidence in the form of a Chow test for structural change across time indicates that the sets of coefficients for all the specification are not significantly different for the pre and post year of the euro introduction.

<sup>viii</sup> A far left party partisan dummy (taking the value 1 if a respondent would vote for the far left party) has not been included in the main model, as the German far left party (die Linke, also PDS and WASG) has only been included in the survey since 1991. To further test for a partisan effect on Stability Culture we ran the main model including this far left party dummy for the 1991-2008 period. The coefficient for far left party voters (.15, significant at the 1 per cent level) suggest that they are even more inflation averse than the CDU/SPD voters, further demonstrating how stability culture transcends the traditional left-right divide.

<sup>ix</sup> Available at [http://www.bverfg.de/entscheidungen/rs19980331\\_2bvr187797.html](http://www.bverfg.de/entscheidungen/rs19980331_2bvr187797.html)

<sup>x</sup> Deutscher Bundestag – 178. Sitzung. Berlin, Mittwoch, den 26. November 2003,

<sup>xi</sup> Deutsche Bundestag - 217. Sitzung. Berlin, Mittwoch, den 20. Februar 2002.

<sup>xii</sup> *Ibid.*

<sup>xiii</sup> 51 per cent of the German population thought that the euro did not ease the economic and financial crisis, whereas the European average was at 45 per cent (Eurobarometer 2009).

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<sup>xiv</sup> Interestingly while Weidemann made reference to Stability Culture on four occasions, Axel Weber did not use this term in his inaugural address in 2003.

<sup>xv</sup> Author interview with two parliamentarians, one CDU and SPD, involved in the federalism reform, 4.4.2010, Berlin.

<sup>xvi</sup> Steinbrück was described by one the negotiators as the ‘saviour of the debt brake’ (Author interview, 4.5.2010, Berlin).